

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

Amendments to Uniform System of)
Accounts for Interconnection)

CC Docket No. 97-212

COMMENTS OF GTE SERVICE CORPORATION

GTE Service Corporation and its affiliated telecommunications companies (collectively "GTE")¹ respectfully submit their Comments on the Notice of Proposed Rule Making in the above-captioned proceeding.² In the NPRM, the Commission proposes to establish additional Part 32 accounts for local competition-related revenues and expenses and to require subsidiary cost records. These additional accounts and record-keeping responsibilities would put significant administrative burdens on incumbent local exchange carriers ("ILECs"), are unnecessary to fulfill the Commission's responsibilities, and are inconsistent with the de-regulatory environment mandated by the 1996 Telecommunications Act. Therefore, GTE urges the Commission not to adopt any new Part 32 accounts or additional cost records and to

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² Notice of Proposed Rulemaking, CC Docket No. 97-212 (rel. Oct. 7, 1997) ("NPRM").

allow each ILEC to determine the optimum mechanism for tracking local competition revenues, expenses, and costs.

I. NO ADDITIONAL PART 32 ACCOUNTS ARE NECESSARY FOR THE PROPER ACCOUNTING TREATMENT OF LOCAL COMPETITION-RELATED REVENUES AND EXPENSES.

A. Creating separate accounts for revenues and expenses will cause significant problems without any corresponding benefits.

In the NPRM, the Commission proposes that new Part 32 accounts and/or subsidiary record-keeping requirements be established for recording the revenues and/or expenses related to interconnection and unbundled elements, transport and termination, and resale.³ For several reasons, adoption of new accounts and record-keeping requirements is both unnecessary and contrary to the public interest.

First, forcing ILECs to establish separate accounts for local competition-related revenues and expenses is inconsistent with the basic tenet of the 1996 Act that competition should develop in a de-regulatory framework. These new accounts and procedures will put significant burdens on ILECs, including new accounting procedures and systems for identifying these costs in the manner the Commission has proposed. Moreover, since competitive local exchange carriers ("CLECs") are not subject to Part 32 obligations, these additional burdens would disadvantage ILECs in the marketplace.

³ NPRM, ¶¶ 7-13.

Second, the Commission's rules state that the Part 32 accounts "are intended to reflect a functional and technological view of the telecommunications industry."⁴ The proposed accounting treatment would force ILECs to record activities in ways that are inconsistent with actual business practices and the reality of telecommunications markets. Requiring ILECs to develop hypothetical subsidiary cost records would only exacerbate this problem by introducing additional procedures that are unrelated to the way ILECs actually record transactions.

Third, ARMIS reporting would be seriously damaged if the Commission's proposals were adopted. The revenues and expenses associated with local competition reveal both traffic volumes and customer information that would be useful to competitors. If these revenues and expenses are segregated in separate accounts, ILECs would be forced to shield not only data for the new accounts, but also total revenue data. This would require the filing of separate public and confidential versions of ARMIS reports.

B. Current Part 32 accounts are sufficient for recording local competition revenues and expenses.

Instead of creating additional and subsidiary accounts, ILECs should be allowed to develop tracking mechanisms for local competition-related costs which best fit their accounting systems. Allowing ILECs to use existing accounts and distinguish local competition-related revenues and expenses at the point most compatible with existing systems will ensure that resources are not needlessly consumed developing new

⁴ 47 C.F.R. § 32.2(e).

procedures. In addition, local competition revenues and expenses can easily be accommodated within the existing Part 32 accounts.

For example, as USTA recommended in its proposal filed last year with the Commission,⁵ account 5240, Rent Revenue, could be used to record interconnection and unbundled element-related revenues. These types of payments plainly fall within the definition for this account, which reads:

This account shall include revenues (including taxes when borne by the lessee) derived from the rental or subrental to others of telecommunications plant furnished apart from telecommunications services rendered by the company. It includes revenue from the rent of such items as space in conduit, pole line space for attachments, and any allowance for return on property used in joint operations and shared facilities agreements.⁶

This description easily accommodates the recording of revenues associated with the "renting" of network facilities to other telecommunications carriers.⁷ Similarly, other interconnection, transport, termination, and resale revenues and expenses can also be recorded in appropriate existing accounts.⁸

⁵ Letter to Mr. Kenneth M. Ackerman from Porter E. Childers (USTA), Dec. 19, 1996 (in response to FCC inquiry at Sept. 25, 1996 NARUC meeting regarding recording of interconnection revenues).

⁶ 47 C.F.R. § 32.5240(a).

⁷ If the Commission believes that consistent use of existing accounts would be beneficial, it could issue a Responsible Accounting Officer ("RAO") Letter providing ILECs with more detailed instructions on how local competition-related transactions should be recorded.

⁸ Similarly, revenues from the sale of transport and termination could be recorded in account 5240, and the costs associated with purchasing unbundled elements, transport and termination, and resale could be recorded in account 6540 (Access Expense).

II. THE COSTS ASSOCIATED WITH PROVIDING INTERCONNECTION SHOULD BE RECORDED IN EXISTING ACCOUNTS, WITHOUT SUBSIDIARY ACCOUNTING RECORDS.

GTE agrees with the Commission's tentative conclusion that investment in facilities used to provide interconnection should continue to be recorded in existing accounts.⁹ As the Commission recognizes, these costs are recorded in numerous Part 32 accounts and the manner in which such costs are incurred will vary depending on the facilities and the particular unbundled network element involved. Accordingly, using new accounts to categorize these investments is neither feasible nor necessary.

However, GTE urges the Commission not to adopt its proposal to create new subsidiary accounting records to track costs associated with interconnection. In particular, the Commission proposes that ILECs develop subsidiary accounting records by creating cost studies that are either "consistent with cost studies underlying the charges for these services and elements" or that reflect the assignment of costs in an interconnection agreement, where the agreement was not based on an ILEC cost study.¹⁰ Under this proposal, an ILEC also would be required to construct a "backwards" cost study to reflect the final outcome of a state-arbitrated interconnection agreement, where the state has altered an ILEC's cost study.¹¹

⁹ NPRM, ¶ 14.

¹⁰ *Id.*

¹¹ *Id.*

The Commission's proposal should not be adopted because it will create substantial new burdens on ILECs and increase administrative reporting requirements that will be of little use in monitoring or assessing competition in local markets. Most notably, ILECs will be required to undertake the expensive and time-consuming process of creating cost studies in order to generate the proposed subsidiary accounts.¹² Further, contrary to the assumption in the NPRM, the cost studies developed in the context of interconnection will be of little use to evaluate competition.¹³ Section 252 costs and Part 32 costs are like apples and oranges. The Section 252 studies rely on state-approved, forward-looking cost models to determine unbundled network element costs, while Part 32 accounts utilize booked (historical) costs. Translating the Section 252 cost studies for purposes of sub-categorizing regulated booked Part 32 activities would force ILECs to convert apples into oranges – an endeavor that would be exceedingly burdensome, rely on arbitrary assumptions, and be ultimately fruitless, as it would not provide any useful information regarding local competition.

¹² Moreover, the creation of subsidiary accounts for interconnection costs would be inconsistent with the Eighth Circuit's *Iowa Utilities Board* decision. As the Court made clear, state regulatory commissions are responsible for reviewing and establishing the prices for access to an ILEC's local telephone network through the provision of unbundled elements. *Iowa Utilities Board v. F.C.C.*, 120 F.3d 753, 793-800 (8th Cir. 1997), *petition for cert. filed* (Nov. 18, 1997). Any attempt to require ILECs to report these intrastate costs would impermissibly expand the Commission's authority and is in no way mandated by an ILEC's obligations under Sections 251 and 252.

¹³ The Commission's confusion on this point is demonstrated by its statement that the local competition-related revenues received by an ILEC can be used as inputs for Part 32 cost accounts. NPRM, ¶ 14 n.31.

Accordingly, the Commission should not adopt mandatory procedures for reporting interconnection costs. Rather, carriers should be permitted to continue to use existing accounts to record investments and to develop methods for reporting such costs consistent with their existing practices.

III. NEW PART 32 ACCOUNTS ARE NOT NECESSARY FOR INFRASTRUCTURE SHARING OR OTHER REQUIREMENTS OF THE COMMUNICATIONS ACT.

GTE supports the Commission's tentative conclusion that no new accounts are necessary to record the investment, expense, and revenue associated with Section 259's infrastructure sharing requirement.¹⁴ Infrastructure sharing arrangements have been in place since before passage of the 1996 Act and have been easily accommodated by existing Part 32 accounts. Therefore, any attempt to create new accounts would place additional, unnecessary accounting costs on ILECs and exacerbate the competitive disparity between ILECs and CLECs, which are not subject to the Commission's accounting and separations rules.

For similar reasons, GTE agrees with the Commission's tentative conclusion not to adopt new accounts for other ILEC obligations or activities under the Communications Act.¹⁵ As in the case of infrastructure sharing, the fact that ILEC costs and revenues associated with current obligations under the Act have been accommodated using existing accounts makes creation of new accounts unnecessary.

¹⁴ NPRM, ¶ 16.

¹⁵ NPRM, ¶ 17.

New obligations can also be incorporated into existing accounts, given the broad scope of the Part 32 framework.

IV. NO NEW ACCOUNTS OR SUBSIDIARY RECORD REQUIREMENTS ARE NEEDED FOR THE COMMISSION TO MEET ITS REGULATORY RESPONSIBILITIES.

In the NPRM, the Commission lists four goals that it hopes to achieve with the proposed accounts and subsidiary record-keeping requirements:

(1) to facilitate uniform reporting among ILECs with respect to interconnection and infrastructure sharing arrangements; (2) to enable the Commission to monitor and assess the economic impact of the development of local exchange and exchange access competition and the deployment of advanced telecommunications capabilities; (3) to ensure that regulated ratepayers do not bear the costs of ILECs' competitive activities; and (4) to assist Commission decisionmaking concerning ILEC petitions forbearance from regulation pursuant to section 10 of the Act by making information concerning ILEC performance related to these services accessible and verifiable.¹⁶

As explained below, the Commission can meet its objectives without adopting additional rules:

- First, any benefits of uniform reporting among ILECs would be overwhelmed by the significant costs. Since allowing ILECs to develop their own systems will produce the same types of records at considerably less cost, this more flexible approach is more consistent with the public interest.¹⁷
- Second, the Commission can monitor competition in the local market without creating additional accounts or recording responsibilities. For example, the Commission can look at the number of certified CLECs in each state, at state reports on competition, and at the voluminous information filed in conjunction with

¹⁶ NPRM, ¶ 6 (footnote omitted).

¹⁷ Even if the Commission were to adopt new accounts, this would not ensure uniform reporting.

the Bell Operating companies' Section 271 applications to determine how competition has developed.

- Third, the Commission's concern that regulated services not cross-subsidize competitive activities is fully addressed by a plethora of other regulatory requirements and does not necessitate adoption of even further reporting obligations. In addition, the Commission's statement that "[r]egardless of how prices for interconnection are determined, new Part 32 accounts and subsidiary recordkeeping requirements are necessary to meet ..." the Commission's goals¹⁸ misses the point. Section 252(d) already requires that local competition-related prices be based on costs, making cross-subsidization impossible, so whether the state or the Commission determines these prices makes no difference: the standard is the same.¹⁹
- Fourth, additional accounts and records are unnecessary for the Commission to fulfill its forbearance responsibilities.²⁰ The burden is on the ILEC requesting forbearance to support its petition²¹ so there is no need for the Commission to have broadly applicable and burdensome requirements. Moreover, the Commission should not prejudge what information will be necessary in support of a particular forbearance petition.

¹⁸ NPRM, ¶ 5 n.17.

¹⁹ Since all local competition-related costs and revenues are included within the intrastate jurisdiction, it is primarily state commissions' responsibility to ensure that regulated services do not subsidize competitive services.

²⁰ 47 U.S.C. § 160.

²¹ Once the ILEC has demonstrated that the statutory standard has been met, the Commission must grant the petition. *Id.*, § 160(a).

V. CONCLUSION

For the foregoing reasons, GTE urges the Commission not to put additional account and record-keeping burdens on ILECs and instead allow carriers to develop tracking and identification mechanisms best suited to their individual systems.

Respectfully submitted,

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affiliated telecommunications companies

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